

# Report on internal briefing paper

Business, Company



\n[toc title="Table of Contents"]\n

\n \t

1. [CapLand Real Estate Advisors Pvt Ltd](#) \n \t
2. [Assessing Risk for the company:](#) \n \t
3. [Initial findings and observations about the company:](#) \n \t
4. [Risk Assessment for CapLand Real Estate Advisory Pvt Ltd:](#) \n \t
5. [Conclusion:](#) \n \t
6. [PART 2: RISK REGISTER](#) \n \t
7. [References:](#) \n

\n[/toc]\n \n

CAPLAND AND REAL ESTATE ADVISORS PVT. LTD.

Doc. Ref. 2013: 01

## **CapLand Real Estate Advisors Pvt Ltd**

Target Audience:

Importance: High

Outcome Required: Response & Direction

Introduction of the company: The firm of CapLand Real Estate Advisors Pvt Ltd has been actively involved in providing services to the public in the field of real estate valuation. Their headquarters are located in the city of Queensland, Australia but they operate and provide their services throughout the country. It is a specialized company that combines the expertise of a commercial real estate agency, a development management platform and a real estate consulting team. Together with so many

specialties they offer a complete portfolio of services to their clients at every stage of the lifecycle of the property. One of the core practices of the company is to work directly with Financial Institutions and Investment Companies on real estate assets. During these cooperative projects they conduct in-depth analysis of the asset, assist in repositioning of the asset by various and appropriate means and finally manage the sale process.

CapLand is also renowned for its expert advisory services. They have assembled a team of advisors who bring with them experience and knowledge of various property backgrounds. In this manner they are in a better position to advice clients throughout the life of the property. They are all senior registered valuers as well who have worked across multiple types of assets in the industry of real estate. (United Nations Economic Commission for Europe Real Estate Market Advisory Group, 2010)

Apart from advisory services, CapLand also provides development management services and property transactions services. Through an integrated approach, CapLand is able to deliver on its promises of providing services of the highest level of quality to the clients. The company is an average sized organization which works on the partnership form of management. Each vertical of the services has a dedicated director who looks after the operations of the division.

Till date, CapLand has provided its services to a wide range of clients which includes developers, funds, government departments, financial institutions, mining and resource companies, private investors and even not for profit organizations. The services of real estate valuation companies like CapLand are useful for a number of purposes like for estimating the value of insurance

for various backings, for taxation of real estate i. e. determining the tax payable on a property, for listing the property for selling and also for estimating the amount of finance that would be required if a property is to be purchased or what finance can be available if the property is kept as a security. However, determining the selling or purchase price of a property is the most common function for which the services of a real estate valuation company are hired. Accurate real valuation is important for the clients who engage the services of companies like CapLand. These can be investors, mortgage lenders, insurers and buyers or sellers of property. Valuation of real estate is different from appraisal of a real estate property. (Trotz, Raymond (ed.), 2004)

CapLand is guided by the provisions and regulations laid down by the Australian Property Institute, which was originally formed in 1926. It is essential that all members of the company be certified by API before they can start working as valuation professionals. These certification exams are also conducted by API and are necessary for asset managers, property advisors, property analysts, facility managers, property lawyers and even researchers and academicians who indulge in study of the real estate market in Australia. There is a similar regulatory authority in New Zealand which is called the New Zealand Property Institute.

### **Assessing Risk for the company:**

The purpose of this report is to conduct a Preliminary Risk Assessment for CapLand Real Estate Advisors Pvt Ltd. The company wishes to conduct such an assessment of its operations and of the industry in order to identify any hazards or unsafe practices. To complete this Assessment, an analysis of the

potential risks that such an organization based out in Australia, of its particular size can face will be conducted, and the findings would then be shared with the management team of the company in a meeting. (Senior Supervisors Group, 2008)

### **Initial findings and observations about the company:**

On the basis of the research that has been conducted about CapLand Real Estate Advisory Pvt Ltd, the following observations have been made:

- Although the company operates and caters to a wide variety of clients and customers, its size of operations are around average for a company in this industry.
- The company has a divisional structure. The company is headed by the Partner who looks after the operations of the company and is responsible for ensuring that the company operates profitably. All the services that the company provides are then divided into individual divisions which are each headed by a director. The director reports to the Partner and has a team of professionals working under him and reporting to him. Each division has its own dedicated team and there is no interference from others in the working of the team.
- The company follows all legal requirements in its methods of operations and meets all necessary compliances.
- The company does not have a risk management system in place and has not backing on the basis of which it can endeavor to mitigate any unforeseen occurrence.
- The staff, while proficient in their field of work and area of expertise, does not have any training about risk management and how one is supposed to

deal with risk from the point of view of the company.

- Information about risk management cannot be gathered from the company either because such an analysis of potential factors of risk in the industry and in the location of operation has not been conducted before. This is the first analysis and assessment of this type that the company is endeavoring to undertake. Therefore, there is no scope of gaining information or data support from the end of the client.

- The members of the organization have, however, have shown enthusiasm and support for this initiative and also shown support for any changes that the company might deem fit to implement as a result of this assessment. The methodology that will be used in order to prepare this risk assessment report will be to categorize the various areas in which a company of this size and belonging to the real estate industry can face risks and then list the various risk hazards under each category. In order to list the various factors that have risk potential for the company in the real estate industry in Australia, research has been conducted by using secondary sources of information, since first hand information from the company is unavailable. (Tecnoborsa, 2011)

## **Risk Assessment for CapLand Real Estate Advisory Pvt Ltd:**

The real estate industry is potentially very risky and investment in this sector has to be done after careful analysis of all the factors involved. The various categories and the factors in each that can impact the operations of CapLand are mentioned below:

Risk factors related to the real estate market (The Royal Institute of

Chartered Surveyors, 2007): Since the company belongs to the real estate industry and its primary operation is providing advice and valuations about properties to clients, the biggest risk that company faces is from changes that impact the real estate market. The various risk factors related to the real estate market that can have an impact on CapLand are listed as follows:

- Interest Rates: The biggest risk that real estate companies and investors face today is that of rapidly changing interest rates. The company needs to be certain whether it is investing in property for the short term or the long term and accordingly provide valuation results for the property under question. Interest rate risk means that the value of the investment being considered will change due to a change in the absolute level of interest rates. In fact, most of the volatility in the real estate market is a result of the changes in the interest rates. At present, the economy of Australia and that of the world is battling a severe economic dip or recession and it is possible that real estate market might face a dip in value as a result of the changing interest rates.

CapLand, on its part, needs to be insured against losses that it might sustain or it might cause its clients to sustain due to changes in the value of real estate properties. The recent volatility in the market and the resultant spread of lenders has also created some uncertainty about the returns that this market can generate. Also, this has forced investors to pull back investments and so additional sources of funds in the real estate capital markets have not been forthcoming. A company like CapLand needs to be in a secure position so that its development division and the valuations

department are insulated against the volatility of the real estate market.

- Credit Risk: A credit risk involves the impact that the ratings of a company will have on its ability to generate cash flows. This will in turn affect its ability to pay rental value or sale value of the property it has engaged for its operations. Credit agencies such as Moody's and Standard & Poor rate the companies that operate in different sectors. This rating, which is also called the credit rating, is a mark of the viability of the operations of the company. If a company is rated as poor, then its value as a tenant will also be lower. This would mean a reduced ability to generate cash flows and pay the right value for the real estate property.

- Cap Rate-Return Imbalance: The impact of rising interest rates is not just seen on the value of real estate properties but also on the cap rates and prices. As interest rates rise, they force the cap rates to move in the reverse direction, thereby pushing prices further lower. In such cases, most valuation companies need to inform the clients not to engage tenants that are vulnerable to the market changes. There is also a risk that the property might be overvalued and the client may end up paying more than what the property is worth. Foreclosures of properties also put pressure on the rents and valuers need to find ways to guard decrease in rents.

- Inflation: Inflation has a major impact on the net operating incomes of all companies. Even though the company might be in a position to generate sufficient cash flow, but with inflation the costs will also rise and as a result, there will be a huge pressure on the company for sustaining profitability.

- Liquidity risk: Valuation companies and advisories cannot counsel their clients to have their investments under lock down and stuck in non-liquid

form of investments. In such uncertain times when the real estate market is under a lot of pressure, it is always advisable to liquidate the investments. But if the right opportunity is lost, then the company faces the risk of not being able to liquidate its investments and watching its value decline as the market declines.

Risk factors related to size of the company: Smaller or average sized companies are always under risk of being taken over or ousted by bigger firms that have more resources at their disposal and can invest more capital to keep the operations going. A company of the size of CapLand faces risk of losing out on competition because of:

- Its limitation of capital to expand operations and hire a more professional staff.
- Even though the company is average sized, its operations are spread over a large geographical area which makes management difficult.
- The capital does not capital or monetary resources to invest in marketing plans to popularize their brand, contrary to what bigger real estate valuation firms can do.
- It also runs the risk of being taken over by a competitor for a fraction of its actual value if its transactions are not successful or if it loses out its client base. (Lützkendorf, Thomas and David Lorenz, 2007)
- It does not have sufficient resources to entertain higher and larger clients which will limit its reach and its scale of operations.

Risk factors related to location of the company: CapLand has its headquarters in Queensland, but its operations are spread all over the country of Australia. However, it does not offices in all such locations with

means that it has the risk of losing out on important and lucrative opportunities because of a non-permanent presence. Also, clients that seek services of real estate valuation companies prefer that the company or its representative should be present in the area so that they can have better interaction with the company. The company also faces the risk of not being able to make proper enquiries because it is not physically present on the location. It is easy to lose its client base and not be able to convert potential clients into accounts because of lack of resources. (Institute of International Finance, 2008)

Risk factors related to the internal functioning of the company: Some of the biggest risks that a company faces or has potential of facing emerge from the internal method of functioning of the company. This means that each and every member of the organization, from the top management to the executive, its methods of operations and its internal administration policies are all potential risk factors.

- Employees: Behavior of employees and their actions have a huge liability on the company because employees are essentially representatives of the company. In various research conducted on work place risk factors, behavior of employees have always been highlighted as a potential factors has impacts an organization in many different ways. For starters, behavior of the employees determines how the organization will function at an informal level. For a company like CapLand, the largest risk from the point of view of employees is on the basis of their efficiency level, employee turnover, their attitude and behavior with clients and whether they have been transparent and honest with the company about their background. There are various

methods by which the company can mitigate these risks. The company, CapLand, also runs the risk of hiring lower quality employees which would not add value to the company in any way. (The European Group of Valuers' Associations, 2009)

- Method of operations of the company or *modus operandi*: The methods that companies employ also make them potential risk factors. The company needs to ensure that at every stage it meets all the legal and regulatory compliances and does not make any omissions of any nature in filing reports with the government and the clients. Also, as changes occur in the methodologies of the market the company also needs to update its techniques of conducting valuations.
- Risk of Natural calamities: Every company that deems to operate faces the risk of suffering losses on account of natural calamities and disasters, for which there is very limited insurance cover.
- Risk of loss by fire: This is a risk which a company can attempt to avoid by having fire fighting instruments in place and also getting adequate insurance cover.
- Risk against theft and embezzlement: This is a very natural and frequently occurring incident and every company, whether small or large, faces this risk on account of its employees, associates or partners. There is adequate insurance available to mitigate this risk.

## **Conclusion:**

All the factors and categories of risks that have been listed above are factors that will result in the company either getting sued by a client or a government authority, running the risk of losing business and getting taken

over by a competitor or running the risk of sustaining losses in any form either monetary or in the form of a brand image. Every company can take adequate steps to mitigate these risks to a large extent and insure it against heavy losses.

## **PART 2: RISK REGISTER**

Risk Factors related to market:

Risk factors related to size of the company:

Risk factors because of location of company:

Risk factors related to internal functions:

## **References:**

The European Group of Valuers' Associations (2009). European Valuation Standards 2009, Sixth Edition. Available: [www.tegova.org/en/p49ccff9f14ad1](http://www.tegova.org/en/p49ccff9f14ad1)

Government of Poland (2010). "Krajowe Standardy Wyceny – Specjalistyczne 3". Available: [www.adamiczka.pl/gallery/KSWS-3-uzgodnienie-0112-final.pdf](http://www.adamiczka.pl/gallery/KSWS-3-uzgodnienie-0112-final.pdf)

International Monetary Fund (2009). Global Financial Stability Report: Navigating the Financial Challenges Ahead. Chapter 2: Restarting Securitization Markets: Policy Proposals and Pitfalls. Available: [www.imf.org/external/pubs/ft/gfsr/2009/02/pdf/chap2.pdf](http://www.imf.org/external/pubs/ft/gfsr/2009/02/pdf/chap2.pdf)

Lützkendorf, Thomas and David Lorenz (2007). "Integrating Sustainability into Property Risk Assessments for Market Transformation". Building Research and Information 35: 6, pp. 644-661.

The Royal Institute of Chartered Surveyors (2007). "Property Risk Scoring:

The Reporting of Investment Risk to Clients”. Available: [www. rics. org/site/download\\_feed. aspx? fileID= 3496&fileExtension= PDF](http://www.rics.org/site/download_feed.aspx?fileID=3496&fileExtension=PDF)

Securities and Exchange Commission (2008). “ SEC Proposes Comprehensive Reforms to Bring Increased Transparency to Credit Rating Process”. Available: [www. sec. gov/news/press/2008/2008-110. htm](http://www. sec. gov/news/press/2008/2008-110. htm) © Copyright 2012, UNECE REM | 28

Senior Supervisors Group (2008). “ Observations on Risk Management Practices during the Recent Market Turbulence”. Available: [www. newyorkfed. org/newsevents/news/banking/2008/SSG\\_Risk\\_Mgt\\_doc\\_final. pdf](http://www. newyorkfed. org/newsevents/news/banking/2008/SSG_Risk_Mgt_doc_final. pdf)

Tecnoborsa (2011). Codice delle Valutazioni Immobiliari, Quarta Edizione (Property Evaluation Standards, Fourth Edition). Available: [www. tecnoborsa. com/IT/page. aspx? tid= 121](http://www. tecnoborsa. com/IT/page. aspx? tid= 121)

Trotz, Raymond (ed.) (2004). Property and Market Rating. Germany: HVB Expertise GmbH.

United Nations Economic Commission for Europe Real Estate Market Advisory Group (2010). Policy Framework for Sustainable Real Estate Markets: Principles and Guidance for the Development of a Country’s Real Estate Sector. Available: [www. unece. org/hlm/publications\\_recent5. html](http://www. unece. org/hlm/publications_recent5. html)